

# JET AIRWAYS (INDIA)

## International pressure prevails; balance sheet vulnerable

India Equity Research | Aviation

Jet Airways (JAL) posted poor operational Q1FY18 with EBITDAR falling 16% YoY dented by sustained stress in Gulf region and higher fuel cost. Key highlights: 1) subdued RPKM growth of 10% YoY lagged Indigo and SpiceJet (SJ); 2) PLF at 82% too lagged peers (Indigo: 88%, SJ: 94%) and RASK was flat compared to 6%/4% growth for Indigo/SJ; and 3) slight improvement in non-fuel CASK was offset by spurt in fuel cost. Higher international exposure (60% capacity) is a hurdle in JAL benefiting from favourable domestic aviation growth. Elevated cost and oil-led shock in Gulf further stress profitability (negative RASK-CASK for 5th quarter). We believe, JAL's EPS is most vulnerable to rise in ATF price (10% swing impacts EPS 90%), significantly exposing its already leveraged balance sheet. Hence, we downgrade to 'HOLD' with revised TP of INR548 (INR615 earlier), 7.5x FY19E EV/EBITDAR.

### Tepid international market dents yield, passenger growth

JAL performed poorly on operating parameters compared to peers due to sluggish international business (60% capacity), especially weak Gulf markets (20% of international capacity). RPKM grew only 10% YoY (Indigo: 25%, SJ: 19%) and PLFs at 82% (Domestic: 83%, International: 81%) improved only marginally. As a result, RASK at INR4.3 was flat YoY—while domestic RASK jumped 9% YoY, international RASK crashed 8% YoY amidst severe pressure in the Gulf region.

### Profitability, balance sheet stressed; capacity addition on track

Focus on pruning costs sustained in Q1FY18 with CASK (ex-fuel) falling 3% YoY, which was, however, offset by 18% spurt in fuel CASK. Owing to high cost structure (CASK ex-fuel 60% higher than Indigo, 25% higher than SJ), JAL continued to clock negative RASK-CASK (loss of INR0.1/km) compared to profit of INR0.6/INR0.3 for Indigo/SJ. We believe, this significantly limits its ability to repay large debt (INR81bn). JAL is planning to enhance capacity by inducting 8 new 737 MAX starting mid-CY18 under sale & lease.

### Outlook and valuations: Challenging; downgrade to 'HOLD'

We factor in lower growth (FY17-19E EBITDAR CAGR at 7%; Indigo: 29%, SJ: 24%) as international operations are likely to continue to struggle. Distressed profitability amidst adverse cost structure (CASK ex-fuel at 60% higher than Indigo) renders balance sheet vulnerable. We value JAL at 7.5x FY19E EV/EBITDAR and downgrade to 'HOLD' from 'BUY'. We have resumed coverage on the stock and pruned FY19E EPS 14%.

#### Financials (Consolidated)

Year to March	(INR mn)							
	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	FY17	FY18E	FY19E
Revenue	59,510	54,320	9.6	57,280	3.9	226,926	244,478	263,214
EBITDAR	7,710	9,170	(15.9)	7,340	5.0	35,810	37,516	40,841
Adjusted PAT	590	490	20.4	240	145.8	4,384	6,958	7,928
Diluted P/E (x)						14.9	9.4	8.3
EV/EBITDAR (x)						7.8	7.4	6.6

#### EDELWEISS RATINGS

Absolute Rating	HOLD
Investment Characteristics	Growth

#### MARKET DATA (R: JET.BO, B: JETIN IN)

CMP	: INR 577
Target Price	: INR 548
52-week range (INR)	: 646 / 332
Share in issue (mn)	: 113.6
M cap (INR bn/USD mn)	: 66 / 1,022
Avg. Daily Vol. BSE/NSE ('000)	: 2,331.1

#### SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	51.0	51.0	51.0
MF's, FI's & BKs	9.7	10.3	32.6
FII's	6.6	2.8	3.5
Others	32.7	35.8	12.9
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	6.1	2.1	(4.0)
3 months	8.4	8.0	(0.4)
12 months	22.3	6.7	(15.6)

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### Tough times: Downgrade to 'HOLD'

We downgrade JAL from 'BUY' to 'HOLD' due to:

- 1) **Lower passenger growth than industry:** JAL's significant international exposure (60% of capacity) prevents it from benefiting from the favourable domestic aviation market growth. Moreover, Gulf region is expected to remain under pressure (20% of international business) amidst subdued oil price outlook, which will aggravate weakness in the airline's overall international portfolio. We expect JAL to post lower passenger growth than Indigo and SJ.
- 2) **Profitability remains stressed:** JAL's profitability remains stressed, with the company recording **negative RASK-CASK for 5th consecutive quarter**. The company has an adverse cost structure (CASK ex-fuel at 60% higher than Indigo, 25% higher than SJ) at operating (full-service carrier) as well as financial levels (highly leveraged), which signals troubled times during low passenger yields (increased competitive intensity in domestic market, weak Gulf market yields).
- 3) **High oil price risk:** JAL's EPS is the most vulnerable to a rise in ATF price (EPS sensitivity to 10% swing in ATF price, JAL: 90%, Indigo: 20%, SJ: 28%). However, while the current favourable oil price cycle benefited domestic airlines, JAL's earnings came under pressure due to severe shock in the Gulf region. An adverse oil price cycle is likely to depress earnings further. On the other hand, if oil price falls, JAL will benefit the most.
- 4) **Stressed balance sheet:** JAL has a negative net worth of INR50bn and high net debt of INR81bn. We believe, lower expected growth and adverse cost structure significantly limit the company's ability to cut leverage.

Based on the above, we have revised down FY19E EBITDAR 10% and estimate JAL's growth to lag peers (FY17-19 CAGR of 7% versus Indigo: 29%, SJ: 24%).

We believe domestic airline companies deserve premium valuations versus global peers (5.0x 1-year forward EV/EBITDAR) on anticipated superior growth (almost 5% higher than global airlines' traffic growth). However, in our pecking order, we believe JAL deserves a discount to Indigo and SJ, on expected lower growth and stressed balance sheet. We assign FY19E EV/EBITDAR of 7.5x (18% discount to Indigo and 12% discount to SJ).

We downgrade our recommendation to 'HOLD' from 'BUY' with revised TP of INR548 (INR615 earlier).

**Table 1: Key operational drivers—RASK flat YoY, RASK-CASK negative**

	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
ASKM (bn)	14.0	12.8	9.1	13.7	2.3
RPK (bn)	11.4	10.4	10.0	11.3	0.8
Load factor (%)	81.7	81.0	0.7	83.0	(1.2)
Yield (INR)	4.5	4.5	1.5	4.3	4.8
RASK (INR)	4.3	4.2	0.4	4.2	1.6
Operating CASK (INR)	3.7	3.5	5.2	3.7	1.4
Fuel CASK (INR)	1.2	1.0	18.4	1.2	(5.9)
CASK ex-fuel (INR)	2.5	2.5	0.0	2.4	5.2
EBITDAR/ASKM (INR)	0.6	0.7	(22.9)	0.5	2.7
Lease/ASKM (INR)	0.4	0.5	(5.7)	0.5	(5.7)
CASK (INR)	4.4	4.3	2.3	4.4	(0.2)
<b>RASK - CASK (INR)</b>	<b>(0.1)</b>	<b>(0.0)</b>	<b>NM</b>	<b>(0.2)</b>	<b>NM</b>
Ancillary revenue	8,064	3,895	107.0	8,014	0.6
Ancillary revenue (%)	13.6	7.2	89.0	14.0	(3.1)

**Table 2: Key operational summary of the industry**

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	YoY (%)
<b>Yield (INR/km)</b>										
Indigo	4.2	3.7	4.1	3.7	3.8	3.3	3.5	3.5	3.8	2.0
Spicejet	4.0	3.5	4.0	3.7	3.7	3.4	3.6	3.5	4.0	6.0
Jet	4.7	4.6	4.7	4.5	4.5	4.4	4.5	4.3	4.5	1.5
<b>RPKM (bn km)</b>										
Indigo	8.9	8.3	9.1	9.7	10.6	11.0	12.6	12.2	13.3	25.4
Spicejet	2.5	2.6	3.1	3.5	3.6	3.6	3.9	4.1	4.3	18.8
Jet	10.2	10.2	10.4	10.5	10.4	10.8	11.0	11.3	11.4	10.0
<b>PLF (%)</b>										
Indigo	87.9	78.4	84.6	85.0	83.3	82.2	87.3	86.1	88.0	5.7
Spicejet	89.4	90.9	91.2	92.3	92.5	92.0	90.7	91.8	93.4	1.0
Jet	82.4	81.8	82.3	83.3	81.0	81.7	79.6	83.0	81.7	0.9
<b>RASK (INR/km)</b>										
Indigo	4.1	3.4	4.0	3.6	3.6	3.1	3.5	3.4	3.8	5.9
Spicejet	3.9	3.6	4.2	3.9	3.9	3.5	3.8	3.7	4.1	4.5
Jet	4.5	4.4	4.5	4.4	4.2	4.3	4.2	4.2	4.3	0.4
<b>Fuel CASK (INR/km)</b>										
Indigo	1.3	1.2	1.1	0.9	1.1	1.2	1.2	1.3	1.2	7.8
Spicejet	1.3	1.2	1.1	0.9	1.0	1.1	1.1	1.2	1.2	13.7
Jet	1.3	1.2	1.0	0.8	1.0	1.1	1.1	1.2	1.2	18.4
<b>CASK ex fuel (INR/km)</b>										
Indigo	2.0	2.1	2.1	2.1	2.0	1.9	2.0	1.9	2.0	(1.3)
Spicejet	2.5	2.6	2.5	3.0	2.6	2.3	2.4	2.4	2.6	0.8
Jet	3.2	3.3	3.2	3.3	3.3	3.3	3.2	3.2	3.2	(2.5)
<b>RASK-CASK (INR/km)</b>										
Indigo	0.8	0.1	0.7	0.6	0.5	0.0	0.3	0.2	0.6	33.0
Spicejet	0.2	(0.2)	0.7	0.0	0.3	0.1	0.3	(0.0)	0.3	4.3
Jet	(0.0)	(0.0)	0.3	0.2	(0.0)	(0.1)	(0.1)	(0.2)	(0.1)	NM
<b>RASK-CASK (ex fuel)</b>										
Indigo	2.1	1.3	1.9	1.5	1.6	1.2	1.5	1.5	1.8	15.2
Spicejet	1.5	1.0	1.7	0.9	1.4	1.2	1.4	1.2	1.5	11.4
Jet	1.2	1.1	1.3	1.1	0.9	1.0	1.0	1.0	1.0	10.9

Source: Edelweiss research

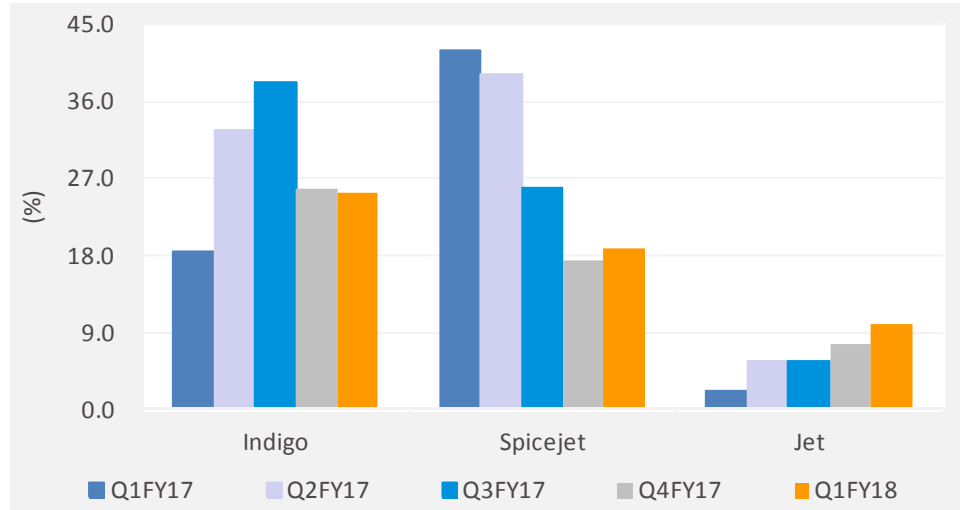
JAL's PAX growth significantly lagging peers due to lower utilisation in Gulf operations

JAL's yield is higher than Indigo and SJ, as JAL is the full service carrier versus Indigo and SJ being the low-cost carriers

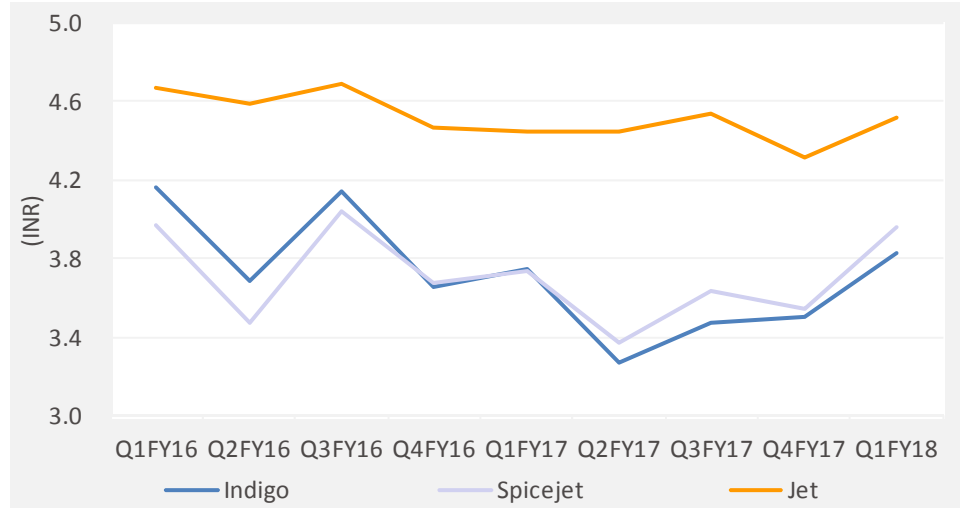
Pressure in Gulf region stressing load factors (PLFs)....

**Jet Airways key trends and industry comparables**

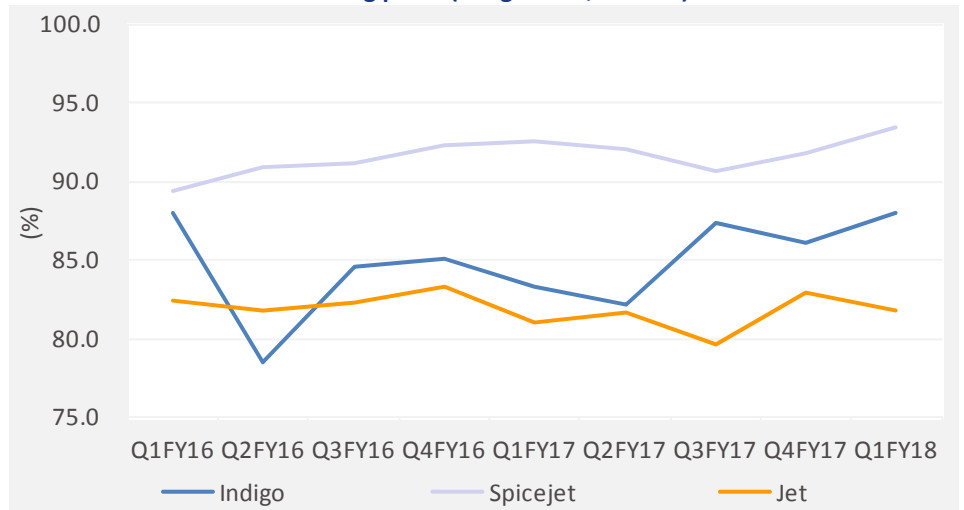
**Chart 1: RPKM growth—at 10% YoY lagged Indigo: 25%, SJ: 19%**



**Chart 2: Yield improved across the board (JAL up 2% YoY, Indigo: 2% YoY, SJ: 6% YoY)**



**Chart 3: PLF—JAL's PLF at 82% lag peers (Indigo: 88%, SJ: 94%)**

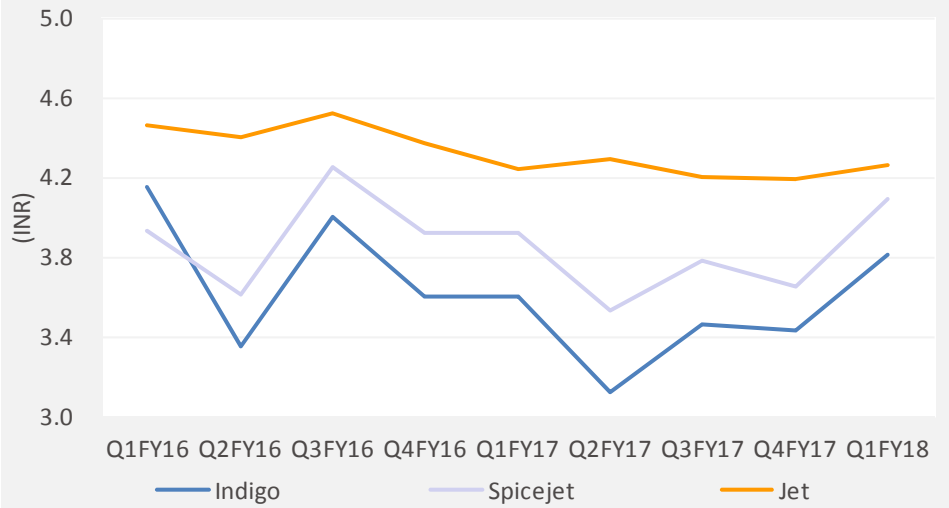


Source: Company, Edelweiss research

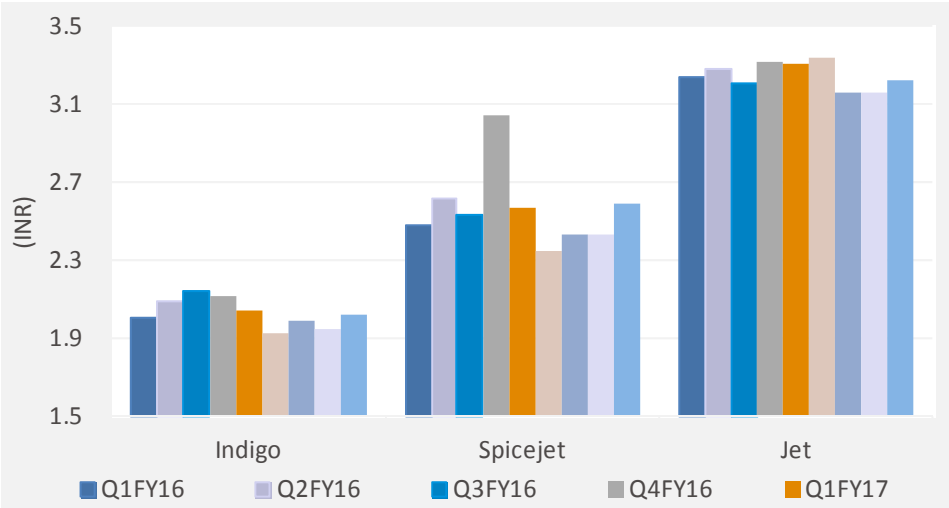
...as a result, despite higher yield than industry, lower PLFs are impacting RASK (SJ's and Indigo's converging with JAL's)

**Adverse cost structure:** JAL's CASK (ex fuel) is 60% higher than Indigo and 25% higher than SJ

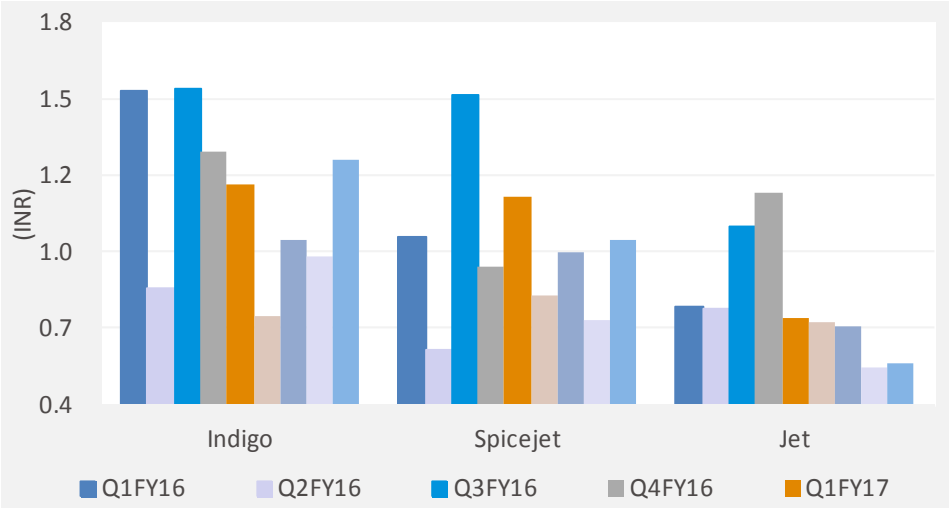
**Chart 4: JAL's RASK flat YoY versus improvement for Indigo: up 6%, SJ: up 4% YoY**



**Chart 5: CASK (ex fuel) - JAL has highest operating CASK (improved 3% YoY)**



**Chart 6: EBITDAR/ASKM—JAL has lowest operating profitability**



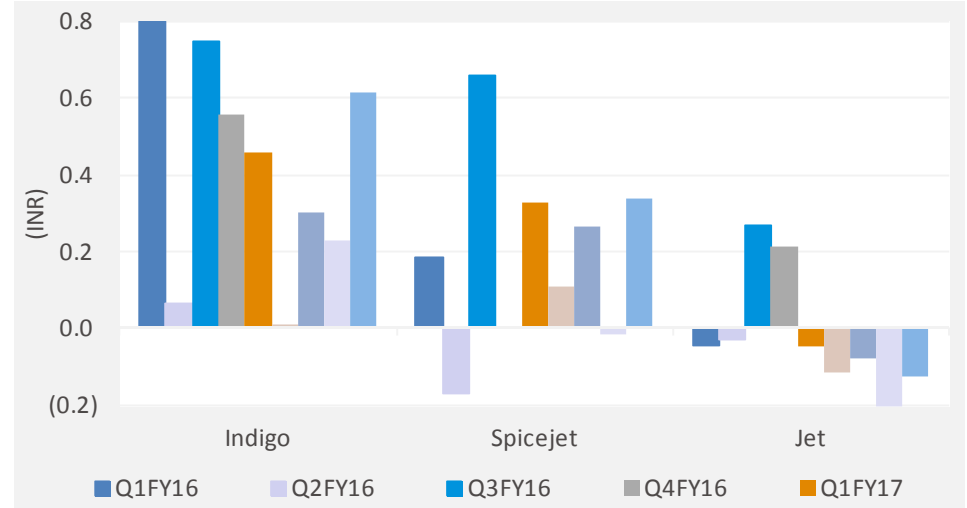
Source: Company, Edelweiss research

Profitability (RASK–CASK) is negative in fifth consecutive quarter

JAL has highest EPS sensitivity vs. ATF price—10% swing in ATF changes EPS 90%

Indigo has lowest EPS sensitivity vs. ATF price—10% swing in ATF changes EPS 20%

Chart 7: RASK-CASK—JAL has been making operating losses over the past 5 quarters



Source: Company, Edelweiss research

Table 3: JAL’s EPS sensitivity: EPS changes 90% for 10% change in ATF

		FY19E Passenger growth				
		6%	8%	10%	12%	15%
ATF change (%)	(20.0)	120	152	184	215	263
	(10.0)	28	60	92	124	171
	0.0	(63)	(32)	0	32	79
	10.0	(155)	(124)	(92)	(60)	(13)
	20.0	(247)	(215)	(184)	(152)	(104)

Table 4: Indigo’s EPS sensitivity: EPS changes 20% for 10% swing in ATF

		FY19E Passenger growth				
		12%	15%	17%	20%	25%
ATF change (%)	(20.0)	0	0	0	0	0
	(10.0)	0	11	21	36	62
	0.0	(26)	(10)	0	15	41
	10.0	(46)	(31)	(21)	(5)	20
	20.0	(67)	(52)	(42)	(26)	(1)

Table 5: SJ’s EPS sensitivity: EPS changes 28% for 10% swing in ATF

		FY19E Passenger growth				
		12%	15%	18%	20%	25%
ATF change (%)	(20.0)	22	39	56	68	96
	(10.0)	(6)	11	28	40	68
	0.0	(34)	(17)	0	11	40
	10.0	(62)	(45)	(28)	(17)	12
	20.0	(91)	(74)	(56)	(45)	(17)

Source: Edelweiss research

Indian airline players trade at premium EV/EBITDAR valuations than global peers, on anticipated superior growth (almost 5% higher than global airlines' traffic growth)

However, in our pecking order, we believe JAL deserves discount to Indigo and SJ on expected lower growth and stressed balance sheet. We assign FY19E EV/EBITDAR of 7.5x (18% discount to Indigo and 12% discount to SJ)

**Table 6: Global peers: Indian companies trading at premium EV/EBITDAR valuation**

Company	PER (1 yr fwd)	EV/EBITDAR (1 yr fwd)	EBITDAR margin (1yr fwd)
Indigo	14.5	8.3	32.7
SpiceJet	10.5	7.8	25.4
Jet Airways	8.3	6.6	15.5
<b>Indian players average</b>	<b>11.1</b>	<b>7.6</b>	<b>24.5</b>
Air Asia	8.5	5.5	38.4
Cebu Pacific	7.5	4.4	32.9
Ryanair	14.3	9.2	33.4
Wizz Air	14.6	3.8	34.2
EasyJet	14.1	6.1	14.2
Spirit Airlines	9.3	3.1	30.0
WestJet	10.6	3.7	22.9
JetBlue	9.7	3.9	24.3
Southwest	13.8	5.8	25.1
Azul	56.9	4.5	29.6
<b>Global peers average</b>	<b>15.9</b>	<b>5.0</b>	<b>28.5</b>

Source: Bloomberg, Edelweiss research

**Table 7: SOTP valuation**

	INR mn	INR/share
Standalone FY19e EBITDAR	38,638	340
<b>Jet Lite EBITDAR</b>	<b>2,203</b>	<b>19.4</b>
<b>Consol EBITDAR</b>	<b>40,841</b>	<b>360</b>
EV/EBITDAR (x)	7.5	
<b>EV</b>	<b>306,307</b>	<b>2,696</b>
Aircraft lease rentals capitalised at 7x	186,011	1,637
Net debt	58,042	511
Equity value	62,254	<b>548</b>
Market Cap / CMP	65,523	577
% upside	(5.0)	(5.0)

Source: Edelweiss research

### Q1FY18 conference call: Key highlights

**Domestic operations:** Contributed 45.2% to overall revenue (up 21% YoY), RASK up 8.7% YoY, ASKM up 8.2%, PLF increased to 83% (up 3% YoY).

**International operations:** Contributed 54.8% to overall revenue (up 2% YoY), ASKM up 9.7% YoY, RASK down 7.7% YoY, PLF at 80.8% (same as last year).

**Business outlook:** Weakness in Gulf market to continue (yields and traffic growth) and rising competitive intensity in the domestic market impacted yields. JAL will continue to focus on improving cost efficiencies.

**Negative RASK-CASK:** CASK (ex fuel) increased 2% QoQ due to inflationary pressure. Challenges in Gulf and some other international markets continued to weigh on yield and posed a challenge to passing on fuel price increase. JAL will continue to focus on cost reduction.

**Capacity growth:** 8 737MAX will be inducted over the next year (June 2018) and could fly both on domestic or international routes based on demand. All these planes will be on lease.

**Debt:** Gross debt at INR87bn, with INR26bn towards aircraft financing. 73% of total debt is USD denominated.

**Gross debt fell during the quarter by INR4bn,** while net debt remained flat (vs. INR4.7bn reduction in Q4FY17) on account of seasonal working capital related debt.

**Debt repayment plan:** All the new aircrafts are under sale-lease. Debt amortisation at INR15-17bn p.a., maturity is 4-5 years (of INR80bn debt). JAL continues to focus on deleveraging (INR27bn reduced in 2 years).

**BKC property:** Profit of INR1.1bn is the final settlement on completion of sale this property, which though accrued earlier over the past 2 years was recognised only in Q1FY18 due to completion of the property.

**Sale of Jet Privilege:** INR3bn asset still available till FY17. INR460mn recognised in this quarter.

**Saturation at Mumbai airport:** JAL's hub is Mumbai and due to constraints on the airport, the company is gaining from competition (higher pricing power). However, growth is a challenge in Mumbai, therefore it is enhancing capacity in Bengaluru and Delhi.

**Business class and impact of GST:** GST rate on Business class increased tax from 9% earlier to 12%, while on Economy class GST rate is at 5% versus 6% earlier. JAL sees no material impact due to this. Focus continues to be on the corporate sector— 47-48% of business from corporate.

**Regional connectivity:** JAL will continue to evaluate Tier-1/2/3 circles and deploy capacity on the right network. Network strategy on the basis of how much smaller circles could feed into international network. JAL will continue to evaluate Round 2 of UDAN.



**Annexure: Key acronyms**

ASKM – Available Seat KM (Total seat capacity \* No. of Km flown)

RPKM – Revenue Passenger KM (Total occupied seats \* No. of Km flown)

PLF – Passenger Load Factor (RPKM/ASKM)

RASK – Revenue per ASKM

Yield – Passenger revenue/RPKM

CASK – Cost per ASKM

ATF – Aviation Turbine Fuel

EBITDAR – Earnings before interest, depreciation, amortisation and rentals

## Financial snapshot

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Total operating Income	56,489	51,389	9.9	54,491	3.7	215,524	231,449	249,543
Aircraft Fuel Expenses	15,242	11,565	31.8	15,811	(3.6)	54,738	62,314	67,651
Employee expenses	7,250	6,388	13.5	7,790	(6.9)	29,418	31,022	34,125
Selling and Dist. Exp.	6,834	6,465	5.7	6,171	10.7	25,311	26,424	28,028
Other expenses	20,008	18,593	7.6	17,714	12.9	71,790	75,995	81,102
EBITDAR	7,155	8,378	(14.6)	7,005	2.1	34,267	35,693	38,638
Aircraft Lease Rentals	5,708	5,484		5,911		22,751	23,242	25,080
Depreciation	1,442	1,782	(19.1)	1,891	(23.7)	8,870	8,811	9,545
EBIT	4	1,111	(99.6)	(797)	(100.5)	2,646	3,639	4,013
Other income	3,051	2,024	50.7	3,105	(1.7)	10,242	10,617	10,446
Interest	1,954	2,068	(5.5)	1,908	2.4	8,407	7,497	7,059
Add: Exceptional items	(566)	(809)	NA	(32)	NA	(579)	(566)	
Profit before tax	535	259	106.7	368	45.4	3,902	6,194	7,400
Total Tax						(2)		
Reported net profit	535	259	106.7	368	45.4	3,904	6,194	7,400
Adjusted Profit	1,101	1,068	3.1	400	175.0	4,483	6,760	7,400
No. of shares (mn)	114	114		114		114	114	114
Adjusted Diluted EPS	9.7	9.4	3.1	3.5	175.0	39.5	59.5	65.1
Diluted P/E (x)	-	-		-		14.6	9.7	8.9

## As % of net revenues

Aircraft fuel expenses	27	23		29		25	27	27
Employee cost	12.8	12.4		14.3		13.6	13.4	13.7
Selling and Dist. Exp.	12.1	12.6		11.3		11.7	11.4	11.2
Other operating expenses	35.4	36.2		32.5		33.3	32.8	32.5
EBITDAR	12.7	16.3		12.9		15.9	15.4	15.5
Depreciation	2.6	3.5		3.5		4.1	3.8	3.8
Aircraft lease rentals	10.1	10.7		10.8		10.6	10.0	10.1
Interest expenditure	3.5	4.0		3.5		3.9	3.2	2.8
Reported net profit	0.9	0.5		0.7		1.8	2.7	3.0

## Change in Estimates

	FY18E			FY19E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	244,478	242,365	0.9	263,214	260,325	1.1	
EBITDAR	37,516	40,524	(7.4)	40,841	45,413	(10.1)	
EBITDAR margins (Common Size Metrics)	15.3	16.7		15.5	17.4		
Adjusted Profit After Tax	6,958	5,246	32.6	7,928	9,169	(13.5)	
Net Profit Margin	2.8	2.2		3.0	3.5		
Capex	8,523	7,948	7.2	2,400	2,400	0.0	

## Company Description

Jet Airways (JAL) is one of India's largest private sector airlines with market share of ~18% in domestic market. JAL was incorporated as an air taxi operator in April 1992. It began its commercial airline operations in May 1993 and international operations in March 2004. It acquired Sahara Airlines (rebranded as Jet Lite, JLL) in April 2007. JAL in May 2009 introduced Jet Airways Konnect (JAK), an all economy service to serve routes where the traffic is predominately price sensitive and demand for high service oriented product is limited.

JAL received an investment of INR 20,580mn from Etihad Airways in 2014 for 24% equity stake. Etihad Airways invested an additional amount of INR 8,590mn for 50.1% equity investment in JetPrivilege, JAL's Frequent Flyer Program. Partnership with Etihad will enable JAL to have combined network of more than 130 routes and would bring additional feeder traffic to Jet.

JAL as of FY17 has a fleet of 112 aircrafts and 8 aircrafts are subleased to Turkish Airlines (3) and Etihad Airways (5). As of FY17 JAL flew to 45 domestic destinations (includes flights operated by JLL) and 20 international destinations. In FY17, international operations contributed 55% to the total revenues and 55% to the operating profit of the company at consolidated level.

## Investment Theme

**Lower passenger growth than industry:** JAL's significant international exposure (60% of capacity) prevents it from benefiting from the favourable domestic aviation market growth. Moreover, Gulf region is expected to remain under pressure (20% of international business) amidst subdued oil price outlook, which will aggravate weakness in the airline's overall international portfolio.

**Domestic demand- supply mismatch:** Demand growth is expected to outpace supply growth leading to better yields. Domestic traffic in India is expected to increase at CAGR of 11%, while international passenger traffic is expected to increase at 7.5% CAGR over next decade. Growth of supply is expected to be lower as currently there is oversupply in market.

**Stressed balance sheet:** JAL has a negative net worth of INR50bn and high net debt of INR81bn. We believe, lower expected growth and adverse cost structure significantly limit the company's ability to cut leverage.

## Key Risks

**Strong capacity addition:** Capacity addition by other airlines especially low cost carrier could pose a risk for increase in market share. Currently there is over capacity in the market however growth in capacity addition is expected to lag demand growth.

**Passenger traffic growth:** Growth in passenger traffic is expected to be high single digit/low double digit for international/ domestic traffic over next decade. Any slowdown in growth of traffic will impact profitability.

**Leverage:** JAL has negative reserves of INR 48,999mn as of FY17. JAL has a high net debt at INR81bn, which has improved post investment from Etihad.

## Financial Statements

## Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
<b>Macro</b>				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	66.0	66.0
<b>Company</b>				
ASKMs (mn)	47,434	50,451	54,327	57,571
RPKMs (mn)	39,174	41,088	45,337	49,860
PLF (%)	83	81	83	87
Fuel rate (INR/lt)	36.3	37.3	39.5	40.5
SG&A exp. as % of rev.	11.1	11.7	11.4	11.2
Other op. exp.(INR/ASKM)	1.5	1.4	1.4	1.4
Employee exp. (%yoy inc)	44.8	45.1	42.8	43.6
Other inc. as % of Cash	39.7	72.8	85.5	52.3
Forward tickets % rev.	14.5	14.0	14.0	14.0
Debtor days	28	23	26	26
Inventory days	18	8	15	15
Payable days	127	94	95	95
Interest Exp (% of Debt)	8.2	10.2	11.0	13.1
Dep. (% gross block)	6.1	5.0	5.2	5.6

## Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	223,211	226,926	244,478	263,214
Aircraft fuel expenses	54,034	59,359	67,244	72,702
Employees Costs	25,323	31,412	33,052	36,154
Selling and Dist. Exp.	23,608	25,333	27,479	29,134
Operating expenses	73,887	75,012	79,187	84,382
Total operating expenses	176,852	191,116	206,962	222,373
EBITDAR	46,359	35,810	37,516	40,841
Aircraft Lease Rentals	22,857	24,278	24,735	26,573
Depreciation	9,962	8,877	8,811	9,545
EBIT	13,539	2,655	3,969	4,723
Add: Other income	5,849.8	9,773.29	10,697.57	10,551.4
Less: Interest Expense	8,850	8,526	7,708	7,346
Profit Before Tax	12,020	3,902	6,958	7,928
Less: Provision for Tax	-	(2)	-	-
Extraordinary item	1,480	-	-	-
Reported Profit	12,117	4,385	6,958	7,928
Exceptional Items	1,480	-	-	-
Adjusted Profit	10,636	4,385	6,958	7,928
Shares o/s (mn)	114	114	114	114
Adjusted Basic EPS	93.6	38.6	61.3	69.8
Diluted shares o/s (mn)	114	114	114	114
Adjusted Diluted EPS	93.6	38.6	61.3	69.8
Adjusted Cash EPS	181.3	116.7	138.8	153.8

## Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Aircraft fuel expenses	24	26	28	28
Non-fuel expenses	55.0	58.1	57.1	56.9
EBITDAR margins	20.8	15.8	15.3	15.5
EBIT margins	6.1	1.2	1.6	1.8
Net Profit margins	4.8	1.9	2.8	3.0

## Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	6.5	1.7	7.7	7.7
EBITDAR Growth	156	(23)	5	9
Adjusted Profit	-	(58.8)	58.7	13.9
EPS	-	(58.8)	58.7	13.9

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	1,136	1,136	1,136	1,136	
Reserves & Surplus	(53,240)	(50,135)	(43,742)	(35,814)	
Shareholders' funds	(52,104)	(48,999)	(42,606)	(34,678)	
Short term borrowings	30,211	2,525	3,128	3,734	
Long term borrowings	62,103	69,708	60,897	51,351	
Total Borrowings	92,314	72,233	64,024	55,086	
Long Term Liabilities	12,788	5,796	6,162	6,294	
<b>Sources of funds</b>	<b>52,997</b>	<b>29,030</b>	<b>27,580</b>	<b>26,702</b>	
Gross Block	163,238	165,224	167,624	170,024	
Net Block	87,785	72,529	72,227	65,082	
Capital work in progress	194	194	194	194	
Intangible Assets	128	128	128	128	
Total Fixed Assets	88,107	72,851	72,549	65,404	
Non current investments	6,794	7,274	7,274	7,274	
Cash and Equivalents	19,881	20,762	17,818	29,581	
Inventories	10,641	5,061	9,590	10,337	
Sundry Debtors	16,271	13,762	16,523	17,814	
Loans & Advances	28,827	24,515	29,811	32,043	
Other Current Assets	2,452	1,811	1,836	1,836	
Current Assets (ex cash)	58,191	45,149	57,760	62,030	
Trade payable	61,200	48,730	53,082	57,075	
Other Current Liab	58,776	68,275	74,739	80,513	
Total Current Liab	119,976	117,005	127,822	137,587	
Net Curr Assets-ex cash	(61,786)	(71,856)	(70,062)	(75,558)	
<b>Uses of funds</b>	<b>52,997</b>	<b>29,030</b>	<b>27,580</b>	<b>26,702</b>	
BVPS (INR)	(458.7)	(431.3)	(375.1)	(305.3)	
Contingent Liability	80,526.7	80,526.7	80,526.7	80,526.7	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	12,117	4,385	6,958	7,928	
Add: Depreciation	22,857	24,278	24,735	26,573	
Interest (Net of Tax)	8,850	8,526	7,708	7,346	
Others	(9,892)	(23,193)	(28,603)	(21,951)	
Less: Changes in WC	(9,489)	(3,080)	1,416	(5,628)	
Operating cash flow	33,932	13,995	10,799	19,896	
Less: Capex	5,544	(6,405)	8,523	2,400	
<b>Free Cash Flow</b>	<b>28,388</b>	<b>20,401</b>	<b>2,276</b>	<b>17,496</b>	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV/EBIDTAR		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Jet Airways (India)	1,022	9.4	8.3	7.4	6.6	(15.2)	(20.5)
InterGlobe Aviation (IndiGo)	6,680	16.7	15.3	9.7	9.0	59.1	56.9
SpiceJet	1,356	19.8	10.5	9.5	7.2	(129.7)	315.6
Median	-	16.7	10.5	9.5	7.2	(15.2)	56.9
AVERAGE	-	15.3	11.3	8.9	7.6	(28.6)	117.3

Source: Edelweiss research

Cash flow metrics					
Year to March	FY16	FY17	FY18E	FY19E	
Operating cash flow	33,932	13,995	10,799	19,896	
Investing cash flow	(4,252)	15,852	2,174	8,151	
Financing cash flow	(36,054)	(29,062)	(15,917)	(16,285)	
Net cash Flow	(6,374)	785	(2,944)	11,763	
Capex	(5,544)	6,405	(8,523)	(2,400)	

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	(18.4)	(8.7)	(15.2)	(20.5)
ROACE (%)	40.4	39.2	65.7	73.0
Inventory Days	48	13	11	14
Debtors Days	25	24	23	24
Payable Days	283	88	76	76
Cash Conversion Cycle	(210)	(52)	(42)	(39)
Current Ratio	0.7	0.6	0.6	0.7
Gross Debt/EBITDA	3.9	6.3	5.0	3.9
Gross Debt/Equity	(1.8)	(1.5)	(1.5)	(1.6)
Adjusted Debt/Equity	(3.3)	(3.1)	(3.4)	(3.9)
Net Debt/Equity	(1.4)	(1.1)	(1.1)	(0.7)
Interest Coverage Ratio	1.5	0.3	0.5	0.6

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	3.6	5.5	8.6	9.7
Fixed Asset Turnover	2.5	2.8	3.4	3.8
Equity Turnover	(3.9)	(4.5)	(5.3)	(6.8)

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	93.6	38.6	61.3	69.8
Y-o-Y growth (%)	-	(58.8)	58.7	13.9
Adjusted Cash EPS (INR)	181.3	116.7	138.8	153.8
Diluted P/E (x)	6.2	14.9	9.4	8.3
P/B (x)	(1.3)	(1.3)	(1.5)	(1.9)
EV / Sales (x)	1.3	1.2	1.1	1.0
EV/EBIDTAR	6.4	7.8	7.4	6.6
EV	137,956	109,720	104,455	83,753

## Additional Data

### Directors Data

Naresh Goyal	Chairman, Non-executive Promoter Director	Javed Akhtar	Director
I M Kadri	Director	Aman Mehta	Director
Gaurang Shetty	Director	James Hogan	Director
James Rigney	Director	Dinesh Kumar Mittal	Director
Diwakar Gupta	Director	Anita Goyal	Director

Auditors - Deloitte Haskins & Sells, Chaturvedi & Shah

*\*as per last available data*

### Holding – Top10

	Perc. Holding		Perc. Holding
Goyal naresh k	51	Etihad airways pjsc	24
Birla sun life asset	3.33	Reliance capital tru	3.17
Life insurance corp	2.07	Reliance ventures lt	1.11
Vanguard group	0.56	Sbi funds management	0.48
Sei investments co	0.44	Kotak mahindra	0.37

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

*\*as per last available data*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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No Data Available

*\*as per last available data*

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**Coverage group(s) of stocks by primary analyst(s): Aviation**

InterGlobe Aviation (IndiGo), Jet Airways (India), SpiceJet

**Recent Research**

Date	Company	Title	Price (INR)	Recos
07-Sep-17	SpiceJet	Ample wind beneath its wings ; <i>Visit Note</i>	128	Buy
11-Aug-17	SpiceJet	Buoyant quarter: Yield recovery augments strong PAX growth; <i>Result Update</i>	115	Buy
31-Jul-17	Interglobe	Strong operational show on	1291	Hold

**Distribution of Ratings / Market Cap**

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

**Rating Interpretation**

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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